

Statement of Celeste H. Heritage
California Tax Education Council

My name is Celeste Heritage and I am a Vice President with Advocation, Inc., a legislative advocacy and association management firm based in Sacramento, California. I am here on behalf of the California Tax Education Council (CTEC). Having administered the CTEC program for the last 13 years, I would like to take this opportunity to thank the IRS and all other parties involved with this forum for the opportunity to be here and share our views and experiences regarding our program.

In 1997 a law was passed which transferred the responsibility for approving tax schools and certifying the education of tax preparers in the state of California from the Tax Preparer Program in the Department of Consumer Affairs to CTEC, which is a non-profit corporation. CTEC regulates any person who, for a fee, assists with or prepares tax returns for another person. CPAs who are licensed by the California Board of Accountancy, EAs, attorneys who are active members of the State Bar of California, and employees of these entities are all exempt from the law. At the time of the transfer, there were approximately 27,000 registered preparers in the state. Each year our registration numbers have increased to the point where we currently have over 44,000 registered preparers.

CTEC Registered Tax Preparers (CRTPs) are required to take an initial 60 hours of education from a CTEC approved provider and 20 hours of continuing education annually to remain in compliance. CRTPs are also required to carry a \$5,000 tax preparer surety bond.

CTEC not only registers preparers, it also approves tax education schools. These schools go through an extensive review process by staff, as well as a thorough curriculum review by tax school academicians. Every three years an approved provider is required to have their materials re-reviewed. Currently, CTEC has approximately 125 approved schools.

In order to register with CTEC, an individual is not required to take a standardized test. However, education providers are required to administer a final examination for all students taking the 60-hour course by distance learning. Although most providers do administer a final examination for instructor-led (classroom) courses, such in-class exams will not be mandatory until 2010. This same procedure could be used for a national registration program. Rather than a standardized test and testing centers, individuals could be required to take a final exam given by the education provider. This exam could be a standardized test (various versions) developed by the IRS and given to providers for their use.

In considering a national program, the imposition of an upfront entrance exam could cause serious harm to the livelihoods of those preparers unable to pass the exam. Some individuals simply are not good test takers. CTEC believes it would be better to initially register all unlicensed preparers, collect the registration fees to fund the program, and impose an annual continuing education requirement on all registrants. This is with the expectation that after two or three years those individuals would be required to take

and pass a standardized test to retain their registration. This approach would be less likely to drive preparers underground and get most on the radar screen upfront.

There is also some concern that a Federal program might follow Circular 230 and limit CPE to Federal tax issues only. CTEC believes it is essential that California tax preparers have education in the tax laws of California. Thus, CTEC's 20-hour annual continuing education requirement includes 4 hours of California education. CTEC also believes that the Circular 230 ethics requirement should be included for all tax preparers.

Since its inception in 1997, no government money has ever been spent on the administration of the CTEC program. It is entirely funded from the annual registration fees (currently \$25.00), late registration fees (currently \$13), provider review fees (between \$500 and \$1,000) and the sale of CTEC merchandise (mailing lists, brochures, posters, etc.). The fees are used primarily to fund administration of the program, education provider reviews, enforcement and public awareness.

Essential to the success of the CTEC program has been the development of a state-of-the-art computer system. During the 2008/2009 registration cycle, over 30,000 preparers registered online. Unlike the manual random auditing of selected CPAs and EAs, CTEC verifies the education compliance of every preparer prior to their initial registration or subsequent annual renewal registration. This is accomplished by mandatory online tax school reporting. Each approved provider is required to verify electronically their students' education with CTEC. To assist providers with this process, a barcode procedure was developed whereby each preparer receives an ID card with a barcode on it. This barcode can then be scanned at the time of the class and used by the provider to simplify the electronic sending of information. The system also allows preparers to view their educational records and find schools where they can take their education. Due to this automation, CTEC is able to administer the program with a staff of only three full-time people.

One of the most important responsibilities undertaken by CTEC is to educate California taxpayers on the selection process of a tax professional. Most years, between \$150,000 and \$200,000 of the CTEC budget is allocated for paid advertising throughout the state for this purpose. Thousands of dollars in free advertising (PSAs and media interviews) is also utilized to get the message out. Brochures, posters, and attendance at tax practitioner events also help convey to the public the importance of selecting a registered tax preparer.

The key to any law is enforcement. For this reason, CTEC, for the last six years, has partnered with the California Franchise Tax Board to provide the needed enforcement arm of the program. Currently, CTEC is paying \$350,000 annually to the FTB for this service. In return, the FTB Fraud Unit investigators are out in the field identifying and fining illegal preparers.

Finally, a question that is frequently asked, "Because of the Tax Preparer Act and the regulations imposed on tax preparers, are tax returns prepared more accurately in California than in states that do not have such laws?" We have looked for statistical data that could be used to validate whether any group of preparers does a better job of preparation than another. Unfortunately, it would appear that there is no data publicly available. Thus, it seems completely illogical that a tax preparer who has had no education at all would be a better option for California consumers than a preparer who

has completed 60 hours of qualifying education and maintains 20 hours of continuing education annually.